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# Republican Policy Committee

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## Addressing the Medicare Crisis

### **Senate Budget Committee Calls For Preserving, Protecting and Improving Medicare**

- The Medicare program, on which more than 36 million older Americans and people with disabilities depend for medical care, is in crisis. According to a report issued last month by the program's trustees — three of whom are Clinton-appointed Cabinet Secretaries — the program will plunge into deficit in fiscal year 1997 and will cease paying for hospital care after 2002.
- Budget Committee Chairman Domenici has proposed a fiscal framework for proposals to preserve, protect and improve the Medicare program.
- Under Senator Domenici's plan, Medicare spending will exceed \$1.65 trillion over the next seven years. Federal spending on the program will grow at an estimated average annual rate of 7.1%, more than twice the projected rate of inflation and faster than the expected growth in private health care spending.

### **The Medicare Crisis**

- The Medicare program is growing at rates that cannot be sustained.
  - According to CBO, Medicare spending rose by nearly 10 percent between calendar years 1993 and 1994, compared with an increase in private health care spending of less than 5.3 percent.
  - Medicare spending in FY 2002 is projected to be nearly twice as high as it was in FY 1995.
- The result is that, beginning in FY 1997, Medicare will start to go broke. After FY 2002, it will be bankrupt.

- What happens when the Hospital Insurance (HI) fund, which pays hospital bills for retirees, runs out of money? According to the report of the fund's trustees:

"Under present law there is no authority to pay hospital insurance benefits if the assets of the HI trust fund are depleted." [HI Trustees Report, pp. 12-13]

- The trustees have warned Congress that, without decisive action, Medicare soon no longer will be able to pay hospital bills for seniors.

"With the magnitude of the projected actuarial deficit in the HI program, . . . the Trustees urge the Congress to take additional actions designed to control the HI program costs. . . . The Trustees believe that prompt, effective, and decisive action is necessary." [HI Trustees Report, p. 4]

- David Walker and Stan Ross, who serve as public trustees for the HI fund, added:

"We strongly recommend that the crisis presented by the financial condition of the Medicare Trust Funds be urgently addressed on a comprehensive basis, including a review of the program's financing methods, benefit provisions and delivery mechanisms."

- A number of factors have contributed to the Medicare crisis, including the following:

- Over the next seven years, spending on Part A benefits (i.e., hospital benefits) is projected to grow more than twice as quickly as revenues to the program.
- Medicare trustees project that the costs of Part B (which pays for physician care and certain other medical services) will grow by 113% between fiscal years 1995 and 2002. Over the next ten years, enrollee premiums will pay for only about 21.5 percent of Part B costs; the rest will come from the federal treasury. When the program began in 1965, enrollee premiums paid for half of all Part B expenditures.
- According to an analysis by Gene Steuerle of the Urban Institute, payroll taxes paid by Medicare beneficiaries during their working years and monthly premiums paid during their retirement cover only a fraction of the costs of their medical benefits. A one-earner couple with average earnings who becomes eligible for Medicare this year can be expected to receive nearly \$186,000 in benefits from the program during the course of their retirement. The combined total of their payroll taxes and monthly premiums would total about \$59,000. (All figures are in inflation-adjusted 1993 dollars.) [Source: Steuerle and Bakija, *Retooling Social Security for the 21st Century*, p. 122.]

## How Medicare Works

- ***What it is.*** Medicare is a nationwide hospital insurance program for older Americans and certain disabled persons. It consists of two parts: the hospital insurance (Part A) program and the supplementary medical insurance (SMI or Part B) program.
- ***Who is covered.*** Americans age 65 or older who are eligible for Social Security or railroad retirement cash benefits are automatically entitled to receive benefits under Part A. Part B of Medicare is voluntary. All persons aged 65 or older may elect to enroll in the SMI program, whether or not they qualify for hospital insurance by paying a monthly premium. The monthly premium in 1995 is \$46.10.
- ***What is covered.***
  - Part A covers all reasonable expenses for the first 60 days of inpatient hospital care minus a deductible (\$716 in 1995) in each benefit period. Coverage of additional days on inpatient hospital care is less generous. Part A also covers skilled nursing facility care, home health care and hospice care.
  - Part B of Medicare generally pays 80 percent of the approved amount for covered services in excess of an annual deductible (\$100). Services covered include doctor's services, laboratory and diagnostic tests, X-ray and other radiation therapy, outpatient services at a hospital, and other services.
- ***How it's financed.***
  - Part A is financed as part of the FICA (Federal Insurance Contribution Act) payroll tax. Through its portion of the FICA tax, the Health Insurance (HI) trust fund receives 2.9 percent of all earnings from covered employment. Half of this amount is said to come from employees, and half from employers, although the entire amount is actually a labor cost which in effect is paid by employees in the form of reduced compensation.
  - Part B is financed by monthly premiums paid by enrollees and from general revenues. Originally, premiums paid for half the cost of the program. Currently, these premiums pay for about 31 percent of the program, although that percentage is projected to decline in future years.

## Responding to the Medicare Crisis

- If government is to honor its contract with older Americans to help pay for their medical care, then it must pull Medicare back from the brink of financial ruin.

### ***The Clinton Solution: Don't Get Sick***

- President Clinton's budget, which he submitted in February, proposes to spend Medicare into bankruptcy by 2002.
- The President has refused to offer a plan to preserve, protect or improve the program, despite the fact that three of his Cabinet Secretaries serve as Medicare trustees and have issued a report calling on Congress to save the program.

### ***The Senate GOP Solution: Save the Medicare Program***

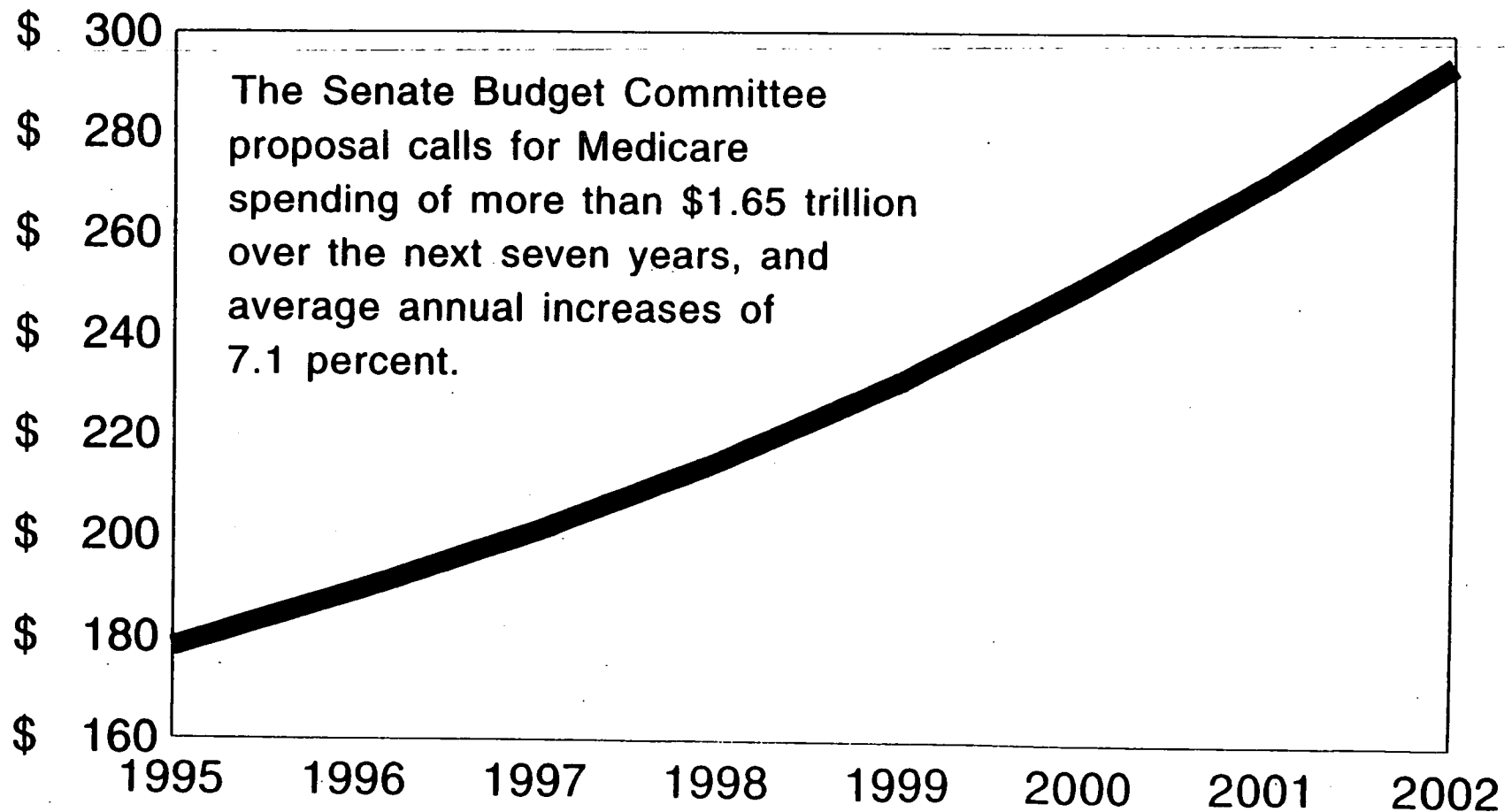
- Senate Republicans are prepared to respond to the challenge of preserving, protecting and improving the Medicare program.
- The Budget Committee proposal calls for responsible growth in Medicare spending that will protect today's retirees and preserve the program for workers who are nearing retirement age. Cumulative Medicare spending over the next seven years will exceed \$1.65 trillion under the committee's plan. Medicare spending will climb to an estimated \$283 billion in FY 2002 under the Budget Committee plan, an increase of \$105 billion or 59 percent above this year's outlays.
- The Senate Finance Committee is exploring proposals that will root out waste and fraud, slim down wasteful bureaucracies, and bring the Medicare program out of the 1960s and into the 1990s by giving seniors greater choices among health care plans.

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# Proposed Medicare Growth

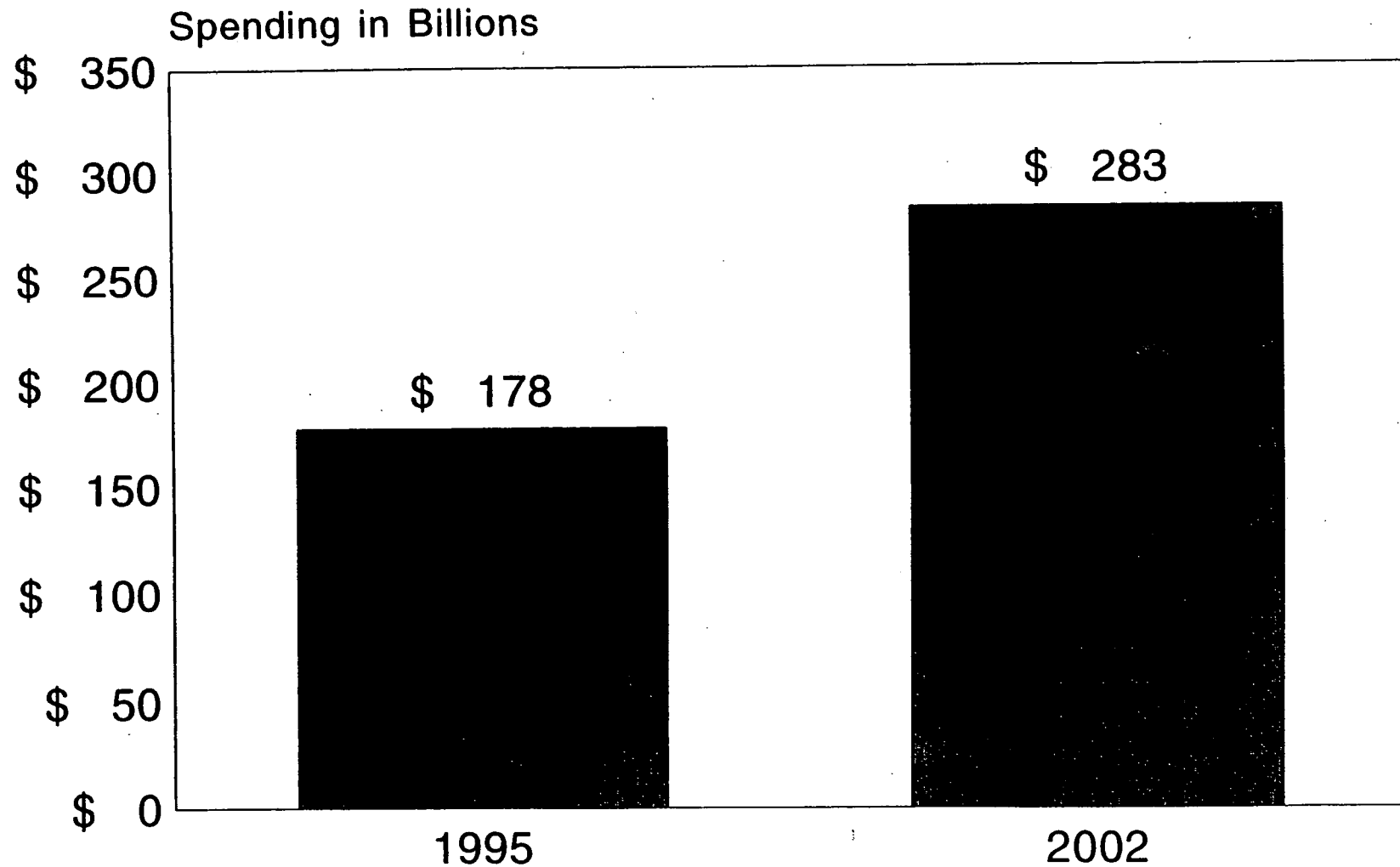
## Senate Budget Committee Proposal (Fiscal Years 1995-2002)



Source: Senate Budget Committee

# Medicare Spending Under Budget Committee Proposal

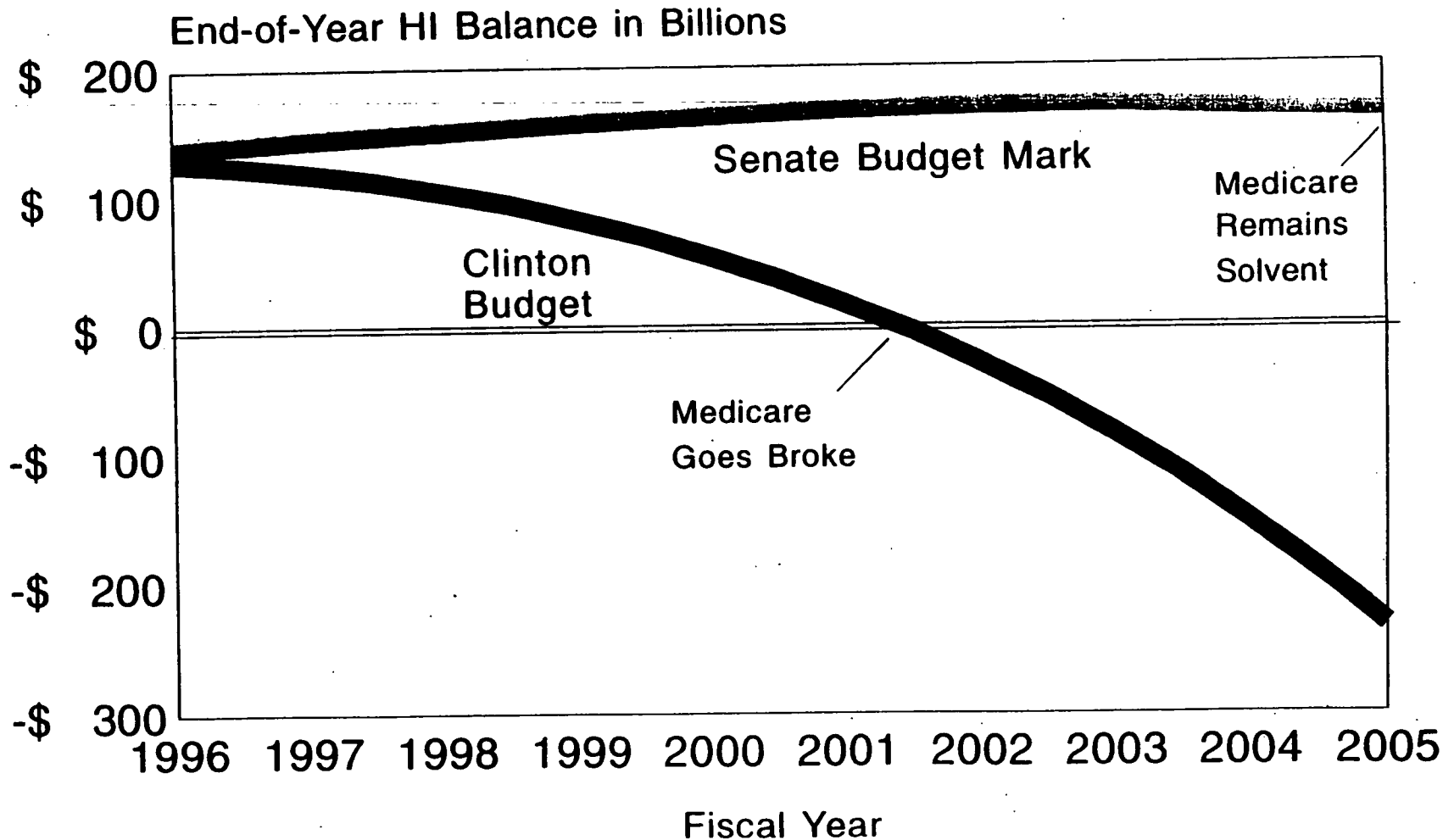
FY 1995 Spending Compared With  
Estimated FY 2002 Spending



Source: CBO, February 1995 Baseline and Budget Committee

# Clinton Budget vs. Budget Committee Mark

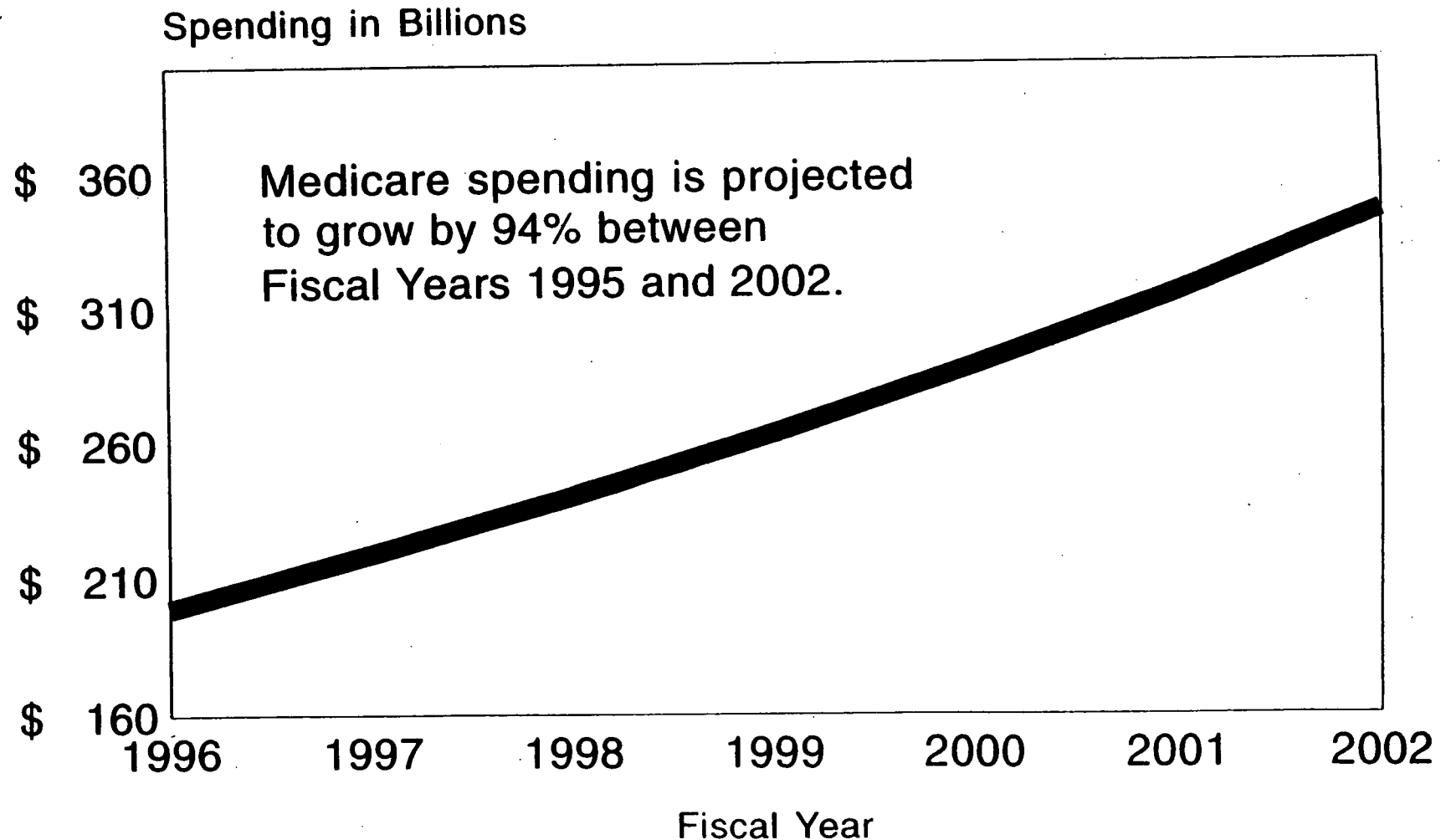
Estimated HI Balances Under Each Proposal  
Fiscal Years 1996 - 2005



Source: Senate Budget Committee

# The Growth of Medicare Spending

Fiscal Years 1996-2002

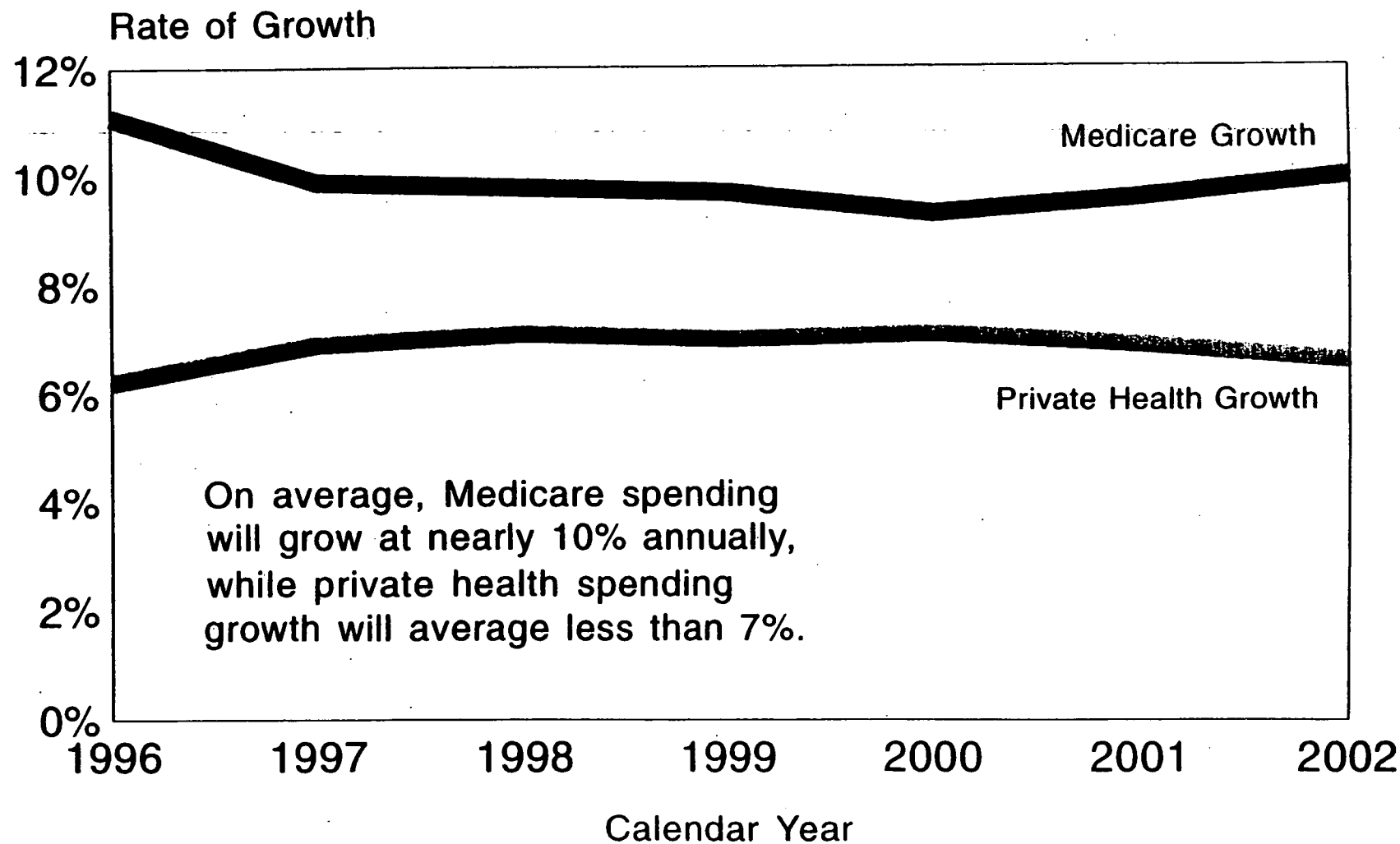


Source: CBO, February 1995 Baseline



# Rates of Spending Growth, 1996-2002

## Medicare vs. Private Health Spending

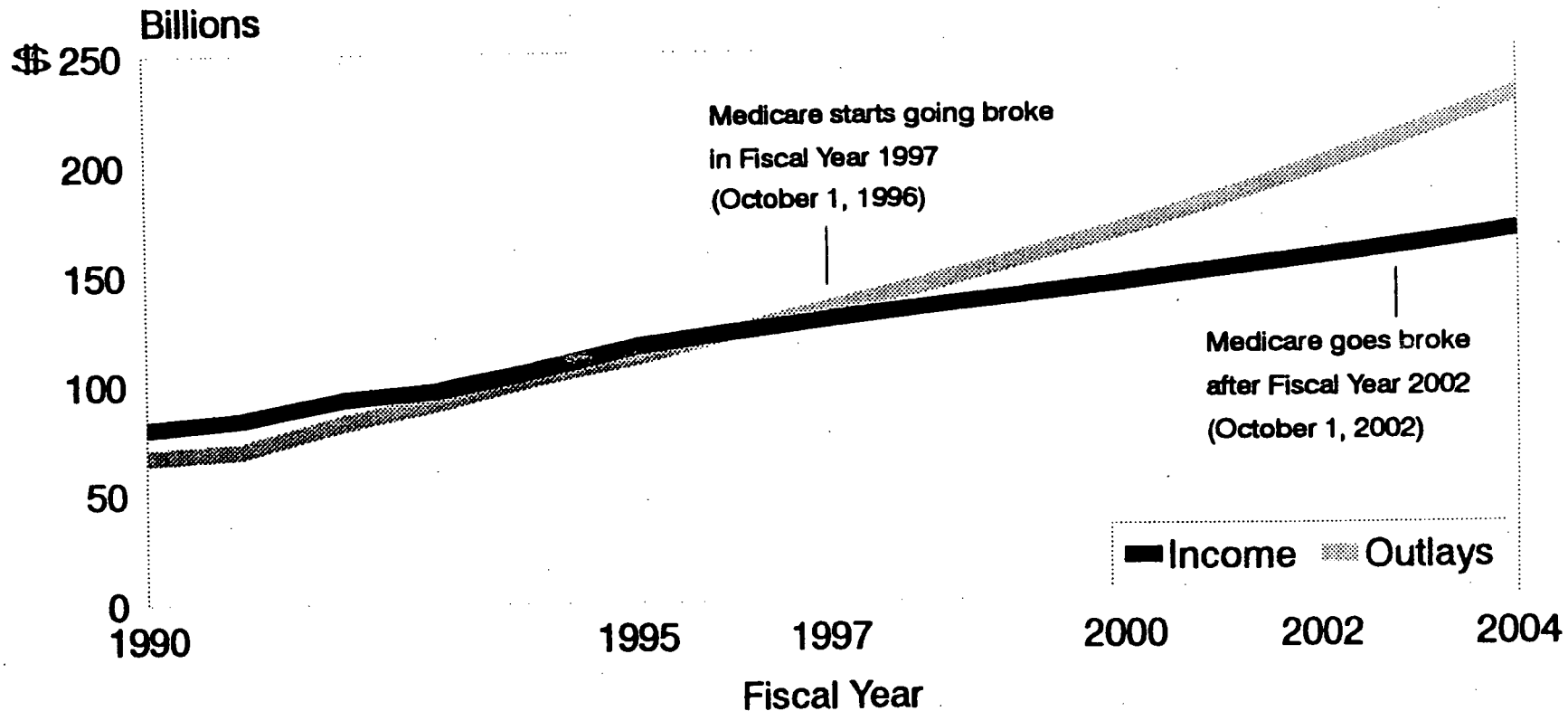


Source: CBO, February 1995 Baseline

# Medicare Is Going Broke

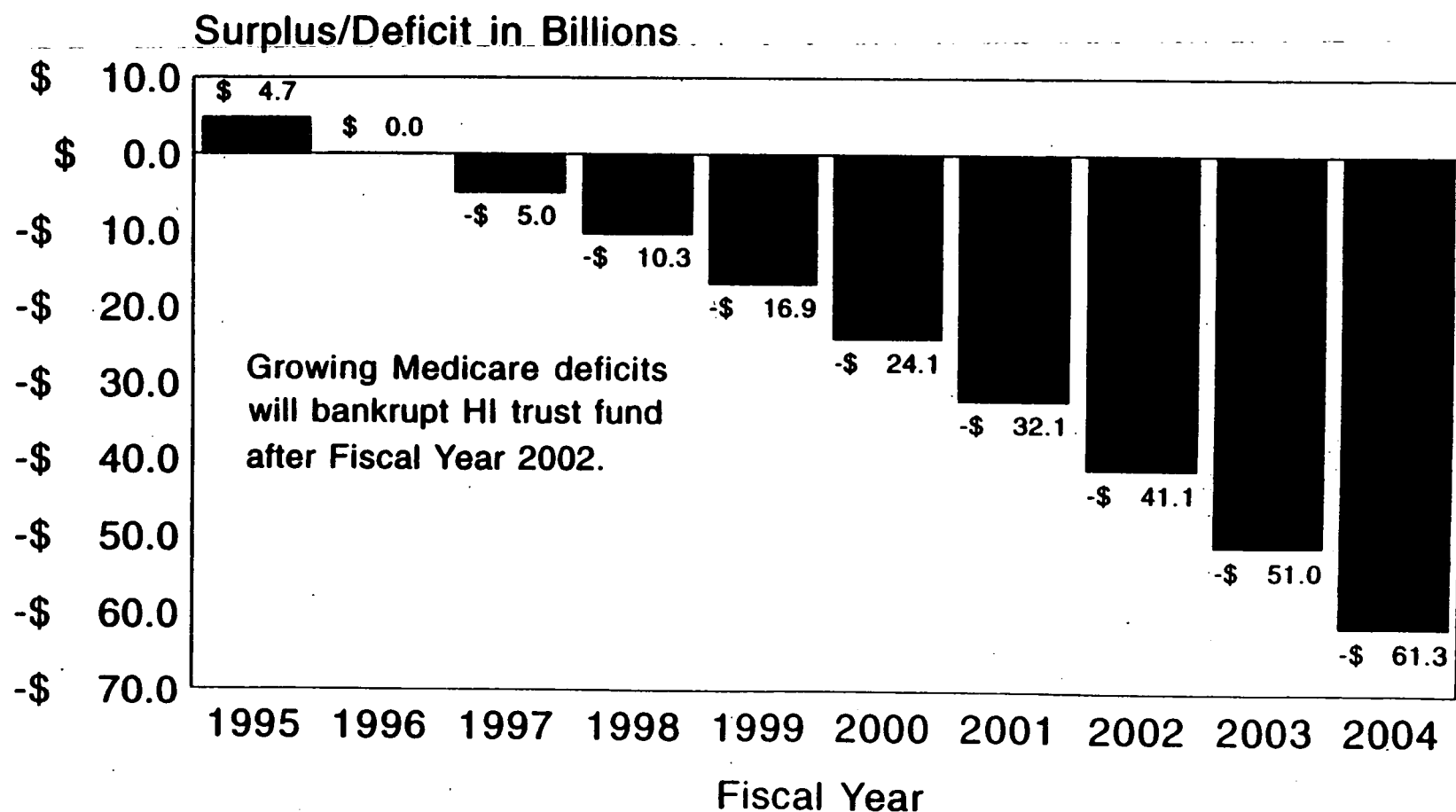
Income and Outlays of the HI Program

Fiscal Years 1990 - 2004



# Mounting Medicare Deficits

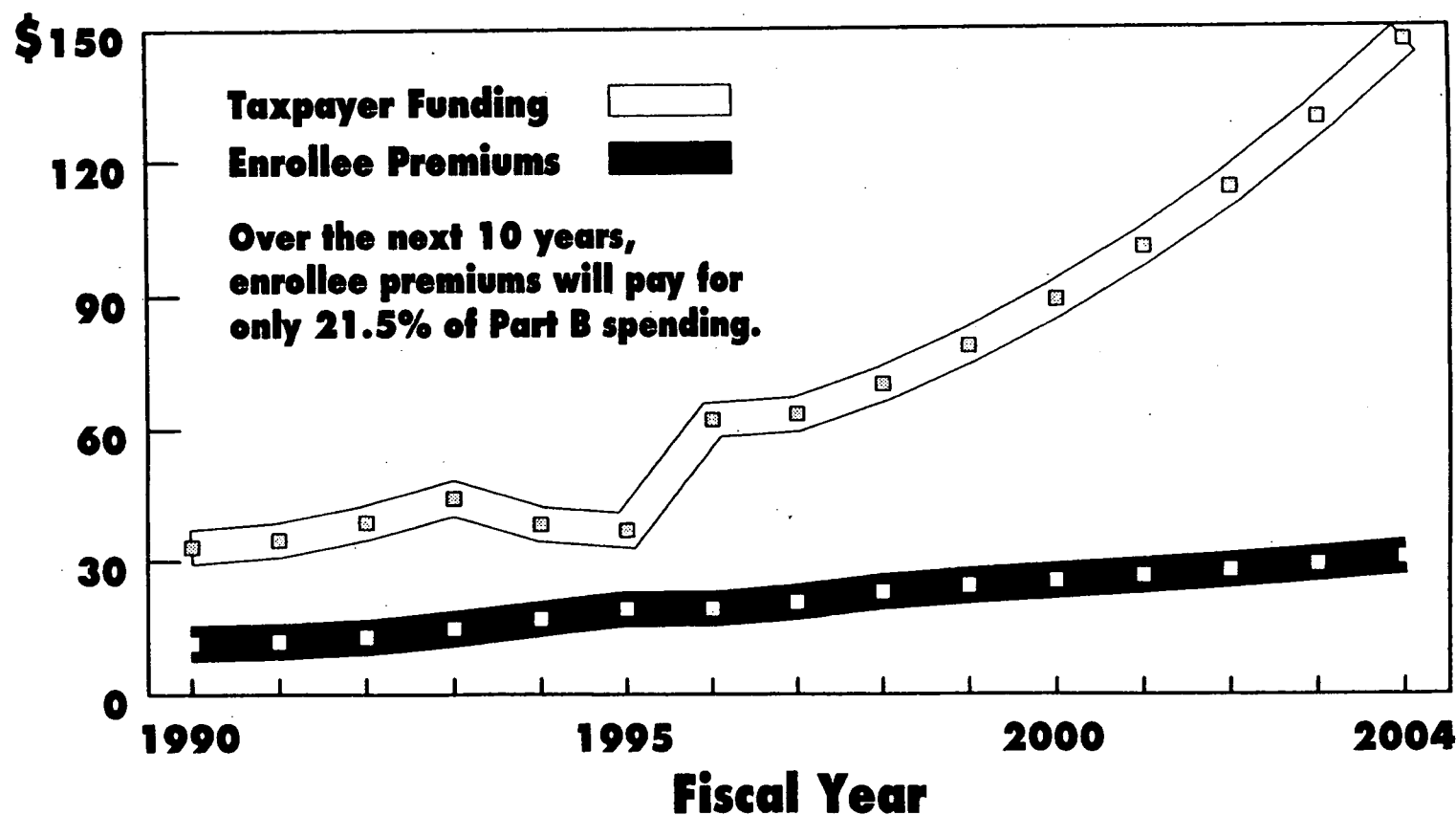
Annual Surpluses/Deficits of HI Fund  
(Fiscal Years 1995 - 2004)



# Who Pays for Medicare Part B?

## Enrollee Premiums vs. Taxpayer Funding

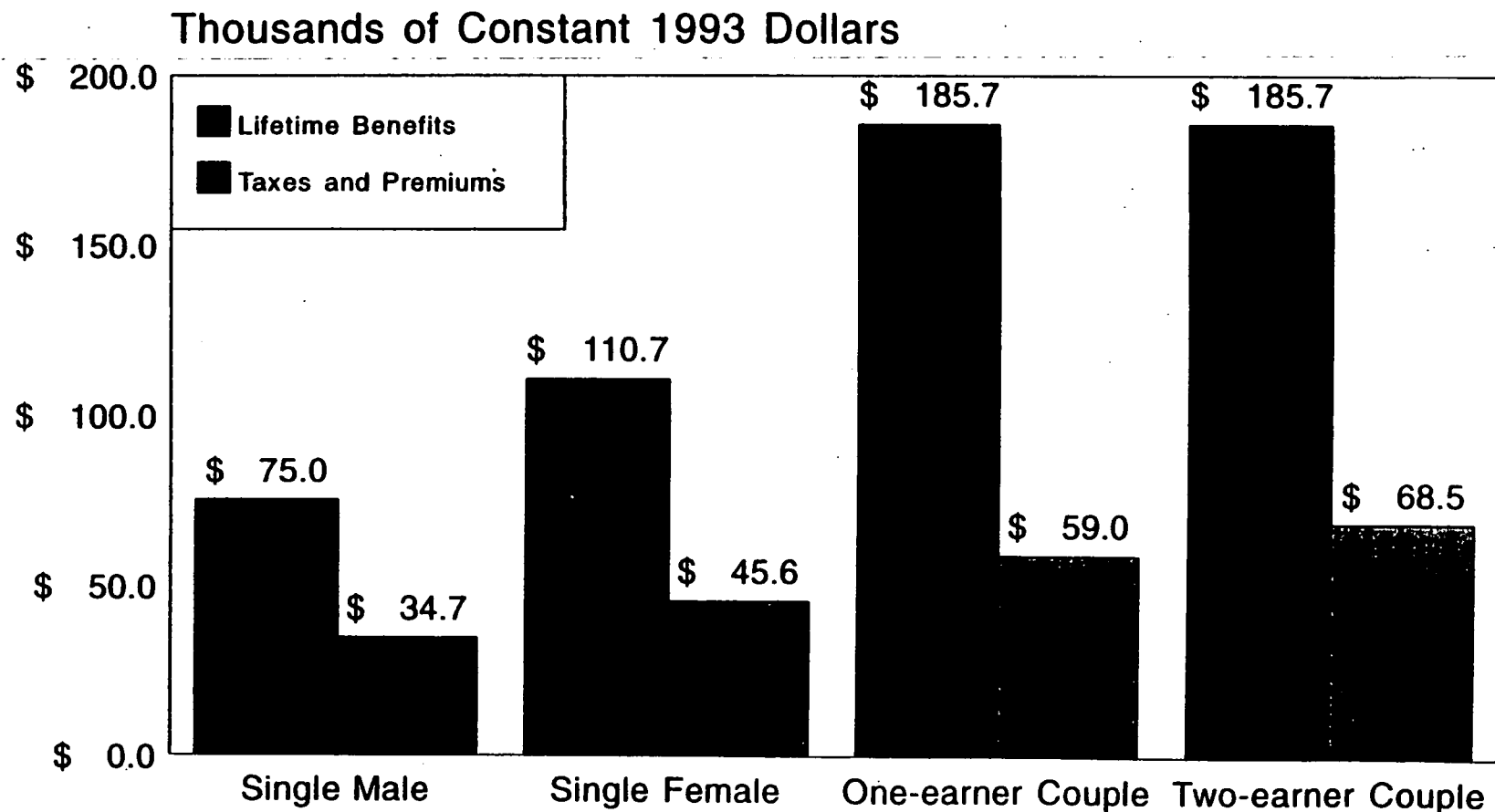
### Part B Income in Millions



**SOURCE:** 1995 SMI Trustees Report, pp. 8-9  
Excludes income from interest and other sources

# Lifetime Cost of Medicare Benefits

Benefits vs. Enrollee Taxes and Premiums  
For People who Turn 65 in 1995



Source: Steurle and Bakija, Retooling Social Security for the 21st Century, p. 122.